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PASS TO USITC FOR L. SCHLITT

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TAGS: ECON ETRD ENRG EPET OTRA ASEC SF
SUBJECT: SOUTH AFRICA's RESPONSE TO USITC STUDY ON SUB-SAHARAN AFRICA: EFFECTS OF INFRASTRUCTURE CONDITIONS ON EXPORT COMPETITIVENESS, PART TWO

REF: A. STATE 85109, B. PRETORIA 1751, C. PRETORIA 1288,
¶D. CAPE TOWN 52

¶1. This cable responds to the items requested in paragraph six and seven of Reftel A. Supplemental documentation will also be sent via e-mail. Transportation/ICT Officer Daleya Uddin (Uddinsd@state.gov or +27-12-431-4344) and Economic Specialist Christo Esterhuizen (EsterhuizenJC@state.gov or +27-12-431-4417) are the main points of contact at post.

¶2. Electricity and transport infrastructure in South Africa are mainly developed, maintained, and controlled by South African Government (SAG) departments or state-controlled companies. Reftels B and C and previous referenced reporting provide additional background information on Eskom (the state-owned power producer) and Reftel D provides background information on Transnet (the state-controlled freight and transport logistics group).

Infrastructure Bottlenecks
Constrain Growth and Trade

¶3. Credit ratings agency Standard & Poor's estimates that infrastructure constraints will postpone attempts by the SAG to reach its earlier 6.0 percent medium-term gross domestic product (GDP) growth target, with potential GDP growth remaining at an estimated 3.9 - 4.5 percent for the foreseeable future. The most important infrastructure constraints relate to transport and, most urgently, to power. It is estimated that a low power capacity margin will shave about 0.5 percentage points off GDP growth in
¶2008. Sustained investment by Eskom and a greater focus on managing demand are likely to contain the effects thereafter, but the energy constraint will remain until the early years of the next decade. Some major energy-intensive investments have already been postponed/cancelled as a result of the power shortage.

¶4. Transnet officials explained that major bottlenecks occurred due to the lack of investment in infrastructure maintenance and expansion during the 1990s. At the time, the SAG was considering plans to privatize some of its state-run entities and the lack of infrastructure investment is blamed on stalled privatization plans.

¶5. The SAG has since abandoned privatization plans and is currently undertaking significant infrastructure expansion projects through state-owned companies to address bottlenecks. Both Eskom and Transnet are currently investing tens of billions of dollars to improve electricity and transport/logistics capacity and to address infrastructure bottlenecks that are hampering growth and trade. Investment has been lacking for many years and the cost of "catch-up" is rising exponentially, especially given the global demand and tight supply for much of the same equipment.

Rising Costs and Bottlenecks
Hurt Textile Trade

¶6. The cost of transporting and storing goods in South Africa amounts to approximately 14.7 percent of GDP, which industry officials believe is significantly higher than most of South Africa's trading partners. Global fuel price increases are adding further pressures to transport costs since the majority of cargo is transported via road. Approximately 12 percent of the South African textile industry's operational cost is made up of transport costs.

¶7. Transnet's expansion plans include shifting freight volumes
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from road to rail transport systems. However, rail's share of freight volume is still on the downward spiral because of Transnet's poor history of service delivery. Road transport infrastructure is being taxed by increased transport of cargo. Rail is unable to cope with any volume increases due to the lack of past investment and protracted procurement procedures. Where the rail infrastructure is operational, it is inefficient and underutilized.

¶8. The South African textile and clothing industry experiences long lead times for exporting goods. For example, it takes about 26 shipping days for the industry to transport goods to Italy, which makes it uncompetitive. Shipping frequencies need to be increased to improve competitiveness. The Ports of Cape Town and Durban do not have enough capacity to handle existing demand. Often goods have to be transshipped from Cape Town to Durban because of a lack of capacity at Cape Town. This additional transshipment increases cost and volumes handled in Durban, which has a negative impact on Durban's ability to cope.

World Cup and Improved Infrastructure
Expected to Boost Tourism Growth

¶9. Efforts are underway to increase airport infrastructure and create limited public transport systems in the Gauteng, Cape Town, and KwaZulu-Natal provinces before the start of the 2010 FIFA World Cup. The World Cup has provided impetus for investments, but many projects extend beyond the World Cup. The tourism sector is creating packages to leverage growth opportunities presented by the World Cup. The Department of Transport is negotiating liberalized bilateral air-lift strategies to increase air service into all three international airports (Johannesburg, Cape Town, and Durban). Deputy Minister of the Department of Environmental Affairs and Tourism (DEAT) Rejoice Mabudafhasi announced that South Africa is on track to receive 10 million tourists per year by 2010.

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